

Message Text

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ACTION AF-10

INFO OCT-01 CIAE-00 DODE-00 PM-05 H-01 INR-10 L-03
NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11 AID-05
COME-00 EB-08 FRB-03 TRSE-00 XMB-02 OPIC-03
LAB-04 SIL-01 OMB-01 EUR-12 ISO-00 /103 W
-----100404 161655Z /43

R 161145Z JUN 78
FM AMEMBASSY CONAKRY
TO SECSTATE WASHDC 4441
INFO AMEMBASSY ABIDJAN
AMEMBASSY DAKAR
AMEMBASSY FREETOWN
AMEMBASSY MONROVIA
AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 2 CONAKRY 1161

E.O. 11652: GDS
TAGS: EGEN, EFIN, GV
SUBJECT: MONEY AND PRICES IN GUINEA

REF: CONAKRY 0760

1. SUMMARY: GUINEAN GOVERNMENT HAS BEEN DELIBERATELY
DECREASING CURRENCY SUPPLY, WHICH HAS SHRUNK CONSIDERABLY
DURING PAST YEAR. SIMULTANEOUSLY GOG HAS ALLOWED LARGE
INFLUX OF CONSUMER GOODS AND RELAXED CONTROLS ON PETTY TRADE.
BLACK-MARKET SYLI RATE HAS DRAWN CLOSER TO OFFICIAL RATE
(20 - \$1.00) IMPROVING FROM 200-1 TO 60/80-1. PRICES ON
MANY SUNDRIES HAVE DROPPED, BUT FOOD AND CONSTRUCTION-
MATERIAL PRICES REMAIN INFLATED AND ORDINARY CASH-SHORT GUINEAN
IS STILL HARD PUT TO MAKE ENDS MEET. WHILE
SYLI IS STILL WEAK, TREND IS FAVORABLE AND GOG SEEMS TO BE
SHOWING INTEREST IN ITS REAL VALUE FOR FIRST TIME IN YEARS,
WITH IBRD ENCOURAGEMENT. END SUMMARY.

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2. HUGE MONEY SUPPLY EXISTS IN GUINEA. IBRD ESTIMATED 8 BILLION
SYLIS FOR DEMAND DEPOSITS AND CURRENCY IN 1977. LARGE SUPPLY OF
GUINEAN CURRENCY (SYLI) IS PHYSICALLY HELD IN CASH BY
MANY PRIVATE TRADERS, GOVERNMENT OFFICIALS AND SOME
EXPATRIATE INDIVIDUALS AND FIRMS. ENORMOUS SYLI
BALANCES EXIST IN SOME BANK ACCOUNTS (USG ALONE HAS
ABOUT US \$7,500,000 OF SYLIS EXCESS TO CURRENT NEEDS).

THESE LARGE POOLS OF SYLIS HAVE FOR YEARS HUNG OVER CURRENCY MARKET, INHIBITING APPRECIATION OF CURRENCY. SITUATION WAS EARLIER CREATED BY GOVERNMENT WILLINGNESS TO USE PRINTING PRESS (BUDGET DEFICITS OR EASY CREDIT BY GOVERNMENT-OWNED BANKS) TO FINANCE UNECONOMIC ACTIVITY. AS CONSUMER GOODS AVAILABILITY WAS UNTIL RECENTLY EXTREMELY LIMITED, IT WAS QUESTIONABLE FOR A TIME WHETHER THE SYLI HAD ANY GENUINE VALUE AS A MEDIUM OF EXCHANGE. HOLDERS OF SYLIS USED EVERY OPPORTUNITY TO CONVERT THEM TO HARD CURRENCY, LIQUOR OR DURABLE CONSUMER GOODS. ONE MULTILATERAL AGENCY OFFICIAL JOKED THAT LARGE PRIVATE HOARDS OF SCOTCH OUGHT TO BE COUNTED AS PART OF GUINEA'S FOREIGN EXCHANGE RESERVES. HARD CURRENCY HOLDINGS RATHER THAN NORMAL SAVINGS OR INSURANCE BECAME "NEST EGG" FOR MIDDLE CLASS. HARD CURRENCY OR LIQUOR THEN CIRCULATED AS "MONEY" IN PLACE OF SYLIS. PRICES OF LIMITED GOODS AVAILABLE FOR SYLIS (E.G., FRUITS AND VEGETABLES IN SEASON) WERE USUALLY BID UP TO OUTRAGEOUS LEVENS.

2. OFFICIAL EXCHANGE RATES OF SYLI IN RECENT YEARS WERE ROUGHLY PEGGED TO SDR AND VARIED BETWEEN 20 AND 21 SYLIS PER US DOLLAR. RECENT DELINE OF DOLLAR AGAINST MAJOR SDR CURRENCIES HAS PRODUCED READJUSTMENT OF OFFICIAL SYLI RATE UP TO 20.386 (AS OF MAY 1978). REAL RELATIONSHIPS, HOWEVER, WERE REFLECTED IN A BLACK CONFIDENTIAL

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MARKET RATE WHICH WAS AS LOW AS 200 SYLIS TO ONE DOLLAR IN 1975 OR EARLY 1976. GOVERNMENT SUBSEQUENTLY INSTITUTED STIFF PROGRAM DESIGNED TO RESTRICT AMOUNT OF CURRENCY IN CIRCULATION. AS A RESULT, BLACK-MARKET RATE ROSE TO 100 SYLIS PER DOLLAR IN MAY 1977; "SUPPORT FLOOR" OR "STICKINESS" DEVELOPED AT THAT LEVEL AS RESULT OF EASE OF CALCULATION, BUT RATE BROKE THROUGH TO ABOUT 80 SYLIS BY JANUARY-FEBRUARY 1978 (MARKET BEING THIN, IRREGULAR AND GENERALLY IN SMALL SUMS, RATE VARIED WIDELY). CURRENT STRONG SYLI PERFORMANCE VIS-A-VIS DOLLAR IS MARGINALLY ATTRIBUTABLE TO RELATIVELY WEAK DOLLAR, BUT MAJOR CREDIT GOES TO GOVERNMENT MEASURES.

A. DURING PAST YEAR, CENTRAL BANK HAS WITHDRAWN FROM CIRCULATION AND PHYSICALLY DESTROYED TWO BILLION SYLIS OF CURRENCY. AS SYLIS ARE BROUGHT INTO THE BANKS IN THE FORM OF CURRENCY, SUBSTANTIAL AMOUNTS ARE TURNED OVER TO CENTRAL BANK WHICH THEN BURNS THEM. MUCH OF THIS PROBABLY STEMS FROM NET EARNINGS OF STATE ENTERPRISES, WHICH WERE SAID TO BE 3 BILLION SYLIS IN 1977.

B. SINCE 1976, GOG BANK REGULATIONS HAVE PROHIBITED CASH WITHDRAWALS OF MORE THAN 20,000 SYLIS/ MONTH FROM INDIVIDUAL BANK ACCOUNTS. IN PRACTICE, BANK CLERKS SOMETIMES ARBITRARILY LIMIT WITHDRAWALS TO EVEN SMALLER SUMS. ALTHOUGH NO SUCH PROHIBITIONS HAVE BEEN PLACED ON BANK TRANSFERS, THIS HAS DAMPENED HARD-CURRENCY BLACK MARKET.

C. GOVERNMENT LIMITATIONS ON STATE ENTERPRISES HAVE ALSO PLAYED ROLE. IN LATE 1976, GOVERNMENT BEGAN POLICY OF REDUCING CREDIT SUPPLY TO AGRICULTURAL USERS AND STATE ENTERPRISES. IN APRIL 1978, PRESIDENT TOURE TOLD NATIONAL ECONOMIC CONFERENCE THAT
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POLICY OF EASY CREDIT FOR STATE ENTERPRISES WAS ENDING; THEY ARE NOW MORE RESPONSIBLE FOR GENERATING OWN RESOURCES, AND STRICTER ACCOUNTING PROCEDURES WILL BE IMPOSED.

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C O N F I D E N T I A L SECTION 2 OF 2 CONAKRY 1161

D. FINALLY, GOVERNMENT BUDGETS THEMSELVES HAVE BEEN RUNNING RELATIVELY KALL DEFICITS SINCE 1975 AND THIS IS NOW BEGINNING TO TAKE EFFECT. TOURE'S SPEECH TO NATIONAL ECONOMIC CONFERENCE DISCUSSED WITH PRIDE ROLE OF GOG BUDGET IN ABSORBING EXCESS SYLIS.

3. MEASURES TO RESTRICT FLOW OF PHYSICAL CURRENCY ARE OF PARTICULAR SINGIFICANCE IN GUINEA, AS ABOUT HALF OF GUINEAN MONEY IS IN FORM OF CURRENCY. FEW GUINEANS HAVE ANY INTEREST IN MAINTAINING A BANK ACCOUNT. LOW LITERACY RATE (15 PERCENT), LOW PERCENTAGE OF POPULATION SPEAKING FRENCH (LESS THAN 10 PERCENT), SMALL NUMBER OF BANK OFFICES, INEFFICIENT BANK SERVICE, RESTRICTIONS ON BANK WITHDRAWALS, AND WIDESPREAD USE OF ILLEGAL HARD CURRENCY GREATLY DIMINISH IMPORTANCE OF BANKING SYSTEM IN THE ECONOMY. BANK TRANSFERS, LOANS, CREDITS AND OTHER NONCURRENCY SYLI TRANSACTIONS PLAY LITTLE IF ANY ROLE IN LIFE OF MAJORITY OF GUINEANS.

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4. ANOTHER MAJOR FACTOR IN THE INCREASING VALUE OF THE SYLI HAS BEEN THE RAPIDLY INCREASING FLOW OF CONSUMER GOODS INTO GUINEA DURING LAST 4-5 MONTHS. SOME GOODS ARE SMUGGLED IN; OTHERS COME IN TARIFF-PAID BUT PURCHASED WITH ILLEGALLY ACQUIRED FOREIGN EXCHANGE; SOME GOODS ARE IMPORTED BY GOG OFFICIALLY, E.G., RENAULT 4'S AND 12'S FOR CADRES, CZECH MOTORCYCLES. LARGEST PORTION OF NONDURABLES APPEARS TO BE BROUGHT IN THROUGH NONGOVERNMENT CHANNELS.

A. BOTH DURABLE AND NONDURABLE GOODS ARE BEING IMPORTED. CONSTRUCTION MATERIAL, AUTOS AND MOTORBIKES MAKE UP THE BULK OF DURABLES, ALTHOUGH ELECTRICAL APPLIANCES ARE ALSO ENTERING (RADIOS, PHONOGRAPHS, KITCHEN APPLIANCES). NONDURABLES ENTERING ARE CLOTH AND CLOTHING, SUNDRIES, WESTERN-STYLE FOODSTUFFS, PLASTIC UTENSILS, CLOCKS AND WATCHES. AS THESE GOODS APPEAR IN MARKETS IN GREATER QUANTITY, SYLI PRICES TEND TO DROP AND PEOPLE ARE INCREASINGLY WILLING TO ACCEPT SYLIS AS A MEANS OF PAYMENT. THIS PROCESS IS SLOWED, HOWEVER, BY BALANCES MENTIONED IN PARA 1 ABOVE. AS CONSUMER GOODS ENTER MARKET, CURRENCY HOARDS ARE DRAWN DOWN, BRINGING MORE CURRENCY INTO CIRCULATION AND VENTING PENT-UP DEMAND. BUT MOST POORER GUINEANS STILL LACK CASH TO TAKE ADVANTAGE OF INCREASED SUPPLY.

B. IN SOME AREAS LOCAL PRICE CHANGES ARE DRASTIC. VEGETABLE OIL (US GRADE SOYBEAN OIL OR EQUIVALENT)

HAS DROPPED IN PRICE FROM 120 SYLIS/LITER TO 70 SYLIS/LITER. MEN'S RAZOR BLADES (OF AMERICAN OR BRITISH ORIGIN) HAVE DROPPED FROM 150 SYLIS PER PACK TO 50-60 SYLIS. FLASHLIGHT BATTERY PRICES HAVE BEEN CONFIDENTIAL

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HALVED. FRENCH CIGARETTES ARE NOW BEING SOLD FOR LQSS THAN HALF THEIR OLD PRICE IN PARALLEL MARKET. ON THE OTHER HAND, DESPITE INCREASING IMPORTS OF CONSTRUCTION MATERIALS, STRONG DEMAND FOR THEM HAS KEPT PRICES STEADY AT OLD LEVELS. PRICE TRENDS OF FRESH FOOD ARE NOT CLEAR DUE TO INFLUENCE OF SEASONAL TRENDS AND LACK OF PRIOR YEAR'S DATA, BUT HAVE GENERALLY REMAINED VERY HIGH.

5. BALANCE OF PAYMENTS HAS NOT BEEN SEVERELY AFFECTED BY RAPIDLY INCREASING IMPORTS. AS PRIVATE FOREIGN TRADE IS ILLEGAL, IMPORTERS CANNOT APPLY TO GOVERNMENT FOR FOREIGN EXCHANGE. PRIVATE IMPORTERS OFTEN PAY OUT OF THEIR OWN FOREIGN EXCHANGE CACHES OR WITH AGRICULTURAL COMMODITIES. CUSTOMS OFFICIALS NOW PERMIT ENTRY OF GOODS UPON PAYMENT OF IMPORT DUTIES WITHOUT QUESTIONING THE ORIGIN OF FUNDS USED TO PURCHASE GOODS. THE GOVERNMENT ITSELF IS IMPORTING INCREASED QUANTITIES OF CONSUMER GOODS, BUT TOTAL DRAIN ON CENTRAL BANK'S FOREIGN EXCHANGE RESERVES IS CONSIDERABLY LESS THAN TOTAL COST OF IMPORTS. BY DESIGN OR CIRCUMSTANCE, GOG IS INCREASING IMPORTS AND SAVING SCARCE OFFICIAL RESOURCES.

6. COMMENT: ALL OF ABOVE HAS BEEN PUT TOGETHER ON THE BASIS OF PERSONAL IMPRESSIONS AND THE ASSUMPTION THAT OBSERVATIONS IN CONAKRY CITY ARE ROUGHLY REPRESENTATIVE OF GUINEAN SITUATION OVERALL. STATISTICAL DATA ARE VIRTUALLY UNOBTAINABLE; GOG ITSELF PROBABLY HAS NO RELIABLE DATA ON MONEY SUPPLY. IT IS NEVERTHELESS CLEAR THAT WHILE SYLI IS STILL WEAK, UNDESIRABLE CURRENCY, ITS RISE IN REAL VALUE IS FAVORABLE TREND. NO ONE CAN PREDICT HOW MUCH LONGER THIS WILL CONTINUE, BUT FOR FIRST TIME IN YEARS GOG IS SHOWING INTEREST IN THE REAL VALUE OF ITS MONETARY UNIT. IBRD TEAMS VISITING GUINEA BELIEVE THEIR ADVICE IS AT LAST CONFIDENTIAL

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MAKING SOME IMPRESSION.
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Message Attributes

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